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Acting NIO/Econ  
13 November 1984

### SOME IMPLICATIONS OF A STRONG DOLLAR

Over the last four years there has been a 70% rise in the value of the dollar over the trade-weighted value of other major currencies. The strong dollar has produced benefits for both the US and other countries. It has helped contain inflation and spur economic expansion outside of the United States, and has made US manufacturers cut their costs. With the US economy growing rapidly, many US manufacturers had their hands full meeting domestic demand and therefore their profit position did not depend extensively on meeting foreign competition. In addition, the high risk-adjusted return on US investments, which was largely responsible for the strong dollar, resulted in a huge net inflow of foreign funds into the US capital market.

During 1984 many US manufacturers have secured increased amounts of parts and components abroad. Slower growth in the US domestic economy in the third quarter probably accelerated these moves as companies saw their profit picture weakening. A sizeable jump in the US trade deficit in manufactures in the third quarter (more than \$30 billion at an annual rate), despite reduced domestic demand, tends to confirm that an increasing number of US firms had made the move to purchase inputs abroad. In essence, the longer term trend toward foreign sourcing of components and parts has accelerated substantially, and the longer the dollar remains strong, the greater the chance that this sudden surge toward foreign suppliers will be permanent.

In anticipation of a falling dollar, many US manufacturers had put off the decision to move plants overseas. Now, however, some are beginning to reassess that decision. The impact could be an erosion of the US industrial base, with implications for both employment, technology transfer, and increasing mixed ownership of business enterprises.

With this import invasion and with the US economy advancing at a more moderate pace, protectionist sentiments will become stronger. There is already an emerging discussion among economists that an import surcharge may be the least harmful way of containing the growing dependence on foreign goods caused by a strong dollar. Even capital controls may surface again.